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Fisher-Boel refuses to reconsider agreement on soft landing of dairy quota

Report Categories:

Dairy and Products

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Report Highlights:

On March 23, 2009, barely three months after approving the Health Check (HC), a number of EU MS, led by Germany, called upon the European Council to re-open the dairy chapter of the HC; notably to postpone the quota expansion for the soft landing of the quota system. Commissioner Fisher-Boel refused, calling it misleading the farmers. The Dairy Mancom on March 19 accepted 6,665MT of butter under its first butter intervention tender, after the 30,000MT fixed intervention storage program had filled in just two days. By March 15, 58,891MT of SMP also entered into the 109,000MT fixed SMP intervention program. Export subsidies have not been raised since February 2009.

General Information:

MS seek to re-open Health Check at March 23 Ag Council

At the [March 23, 2009 Agricultural Council meeting](#) [1] , Commissioner Fisher-Boel firmly resisted calls from Member States (MS) to re-open last December's Health Check package for the "soft" landing of the milk quota [2] . Germany, backed by Austria, Hungary, Slovenia and the Slovak Republic, called for the annulment of this year's first scheduled one percent increase in milk production quota on April 1 as agreed in the Health Check less than six months ago. Fischer-Boel called upon Ag Ministers to abandon this idea, calling it unhelpful, because the quota increase would not necessarily raise overall production. Farmers are now basing their production decisions on market prices and cost structures rather than quota levels as most MS are producing below quota already. The Netherlands, supported by Sweden, Denmark, UK and Spain, defended the quota increase on the presumption that other exporting countries were waiting to take EU market shares in the world market if the EU reduced its exports. Fisher-Boel also resisted calls for increased intervention storage, renewed subsidies for the use of SMP and butter in processed food and subsidies for casein production. She only agreed on considering more product flexibility for the School Milk Scheme. For MS who insist on better supporting their dairy sector, Fisher-Boel pointed out MS options, such as state aid under the "de minimis" rules, or for export credit guarantees. Fisher-Boel presented a market overview to Ministers and promised to do this again in the summer and in autumn.

March 19 Mancom buys 6,665 Mt of butter in first intervention tender

At the March 19, 2009 Dairy Management Committee (Mancom) meeting, the European Commission (EC) accepted 6,665MT of butter, out of 9,407MT offered, at a price of €220/100Kg in its first intervention tender. The EC did this after the 30,000MT intervention storage program for butter, which opened on March 2nd, had unsurprisingly been filled completely in just two days. Further, another 58,891MT of butter was taken off the market into the PSA scheme.

For dairy proteins, export subsidies also became available in January 2009. The 109,000MT intervention scheme for SMP, which also opened on March 2nd, instantly attracted some 40,000MT of SMP because production from February was also eligible. As of March 15, 54,574MT of SMP had been bought in intervention. As a result, SMP and related product prices seem to have stabilized around the intervention price equivalent.

Standing export subsidy levels have not been increased since February, as it was estimated that the

existing support measures were proving to be effective. Because of this, the EC has resisted until now calls from milk producers to start offering subsidies for incorporation of SMP in feed again. The EC subsidy for casein production is even less likely in the short term because this primarily benefits France and Germany.

After the 2007 price hike, the EU dairy market situation worsened rapidly as milk production margins crumbled with falling dairy product prices. By the autumn of 2008, the situation had deteriorated to a point that in November 2008, the EC decided to open the PSA scheme for butter from January 1, 2009 with butter produced in December 2008 eligible for the scheme. By the first Dairy Mancom meeting in January 2009, the situation had deteriorated to the point that the EC decided to re-install export subsidies for a wide range of dairy products. The levels of export refunds were increased at the February Mancom meeting.

EU dairy market supports after 2008 Health Check

The current EU dairy policy results from the CAP Reform of 2003. Under this reform, the amounts for public intervention storage for 2009 were fixed at 30,000MT for butter and 109,000MT for SMP. This intervention scheme was made available from March 1 through August 31, unless the maximum level was reached before that period. Beyond these amounts, the EC can further buy product for intervention storage by tender. Additionally, for butter, Private Storage Aid (PSA) could be made available after March 1st. Subsidy programs for specific domestic disappearance were also available. For butter, this was for the incorporation in pastry, ice cream and other food products. For SMP, this was for incorporation in animal feed and for the processing of skim milk into casein. Export subsidies could be made available for the assisted market clearance for a large number of dairy products to a wide range of destination countries. However, the United States are not an eligible destination for export subsidy enhanced exports as a result of an agreement with the EU.

The favorable market situation in 2006 and 2007 had allowed the EU to clear all public stocks of SMP and butter. This led the EC to progressively halt all support measures for dairy disappearance. The EC used the 2008 Health Check to make some modifications to the dairy support scheme. The most important are the abolition of PSA for the ripening of cheeses and the abolition of the disposal aid schemes for butter.

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^[1] http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/agricult/106902.pdf

^[2] See GAIN E48138 - Council reaches political agreement on CAP Health Check